

**Annual Report**  
**Iowa Agricultural Development Authority**  
2012 Fiscal Year (July 1, 2011 – June 30, 2012)  
Completed by: Steve Ferguson, Executive Director  
January 29, 2013

**1. 175.8 -- Report to Governor and Members of the General Assembly**

**Background**

- The Authority: (Iowa Agricultural Development Authority)
  - ❖ Does not receive General Fund monies from the State of Iowa
  - ❖ Is a self-funded agency which charges modest loan origination and closing fees
  - ❖ Manages the Rural Rehabilitation Trust Fund (RRTF) through a Use Agreement executed with the U.S. Department of Agriculture. The RRTF funds:
    - Can only be used for USDA-approved programs
    - Can be used for the Authority's general administrative expenses, up to 3% of the previous year-ending RRTF fund balance
    - Cannot be used for other State Government purposes
- Programs administered by the Authority:
  - ❖ Beginning Farmer Loan Program (BFLP)
  - ❖ Beginning Farmer Tax Credit Program (BFTCP)
  - ❖ Loan Participation Program (LPP)
  - ❖ Iowa Agricultural Youth Institute (IAYI) – the Authority board has canceled this program

**A. Operations and Accomplishments**

1) Beginning Farmer Loan Program	<u>1/1/12 – 12/31-12</u>	<u>1/1/81 – 12/31/12</u>
a. Projects completed	68	4,013
b. Volume of loans	\$14,843,214	\$495,623,713
c. Active loans	68	2,198
2) Beginning Farmer Tax Credit Program	<u>1/1/12 – 6/30-12</u>	<u>1/1/07 – 12/31/12</u>
a. New projects completed	537	
b. Volume of tax credits	\$5,771,429	\$20,802,987
3) Loan Participation Program	<u>1/1/12 – 6/30/12</u>	<u>7/1/96 – 12/31/12</u>
a. Projects completed	0	111
b. Volume of loans	\$0	\$6,484,779

- 4) Receipts and Expenditures – Per State Auditor’s Report -- (Year-ended 6/30/12)
- |                 |           |
|-----------------|-----------|
| a. Receipts     | \$430,683 |
| b. Expenditures | \$431,483 |
| c. Net for year | (\$800)   |
- 5) Assets and Liabilities– Per State Auditor’s Report -- (Year-ended 6/30/12)
- |                            |                   |
|----------------------------|-------------------|
| a. Assets                  | \$6,061,344       |
| b. Liabilities             | \$ 72,311         |
| c. Net Assets              |                   |
| Invested in capital assets | \$ 11,472         |
| Restricted net assets-RRTF | \$5,299,998       |
| Unrestricted net assets    | <u>\$ 677,563</u> |
| Net assets                 | \$5,989,033       |
- 6) Schedule of Bonds and Notes Outstanding
- The Authority does not have any outstanding bonds
  - The Authority’s liabilities are limited to various accounts payable and compensated absences and the state employee retirement incentive program (SERIP).
- 7) Statement of Proposed and Projected Activities
- Due to the economic conditions, where land prices and cash rental rates are very high, the Authority is receiving far fewer applications than in previous years.
  - Since the Authority only operates on application and loan closing fees, the Authority is experiencing a significant decreased revenue stream to pay for all of its expenses.
  - The Authority is not planning to fill a current vacant position, but proceed to operate with only three positions, with the Iowa Department of Agriculture and Land Stewardship being compensated to provide the Authority’s accounting services.
  - The proposed and projected activities are to continue reducing expenses, expand our marketing efforts, and collaborate more closely with agricultural organizations / lenders.
  - The Authority board of directors has discussed the unfortunate economic conditions that Iowa’s beginning farmers are operating and have explored some potential ideas that could provide more support and service, as long as there are increased revenues to hire and maintain the necessary staff to properly administer more programs.
- 8) Recommendations to the General Assembly
- Continue to find ways to expand programs and services for Iowa’s beginning farmers as long as there are corresponding revenues to finance the Authority’s expenses.
  - Explore some long-range programs and funding streams that will support Iowa’s beginning farmers and facilitate more of them to be able to engage in agriculture and not be eliminated by larger farmers who can out bid them for land purchases and/or cash rent negotiations.
  - If the economic conditions do not improve for beginning farmers over the next couple of years and therefore, the Authority’s cash flow does not improve, there may be some merit to exploring how the Authority can generate more revenue on its own, or through

potential appropriation from the State of Iowa, so the Authority's programs can continue to be provided for Iowa's beginning farmers.

- d. The Authority has the authorization to administer programs for all farmers, not just beginning farmers. If the Governor and Legislature would like the Authority to administer other farmer programs, these could be presented for consideration to the Authority board members.

9) Analysis of beginning farmer needs in the state:

- a. Iowa's beginning farmers need an environment where they can more readily pursue their goals with reduced competition from the ever-increasing large farmers.
- b. With numerous farmers reaching the age to retire there could be some new relationships initiated that could be beneficial to the retiring and beginning farmers:
  - i. A retiring farmer could custom hire a beginning farmer to do specific on-farm tasks for a lower tax credit for 3-5 years.
  - ii. If the relationship evolves after 3-5 years, the retiring farmer could lease the farm to the beginning farmer through the Authority's Beginning Farmer Tax Credit Program.
  - iii. Or the landlord could sell the farm on contract, through the Authority's Beginning Farmer Loan Program where the interest income paid to the seller would be federal and state tax-exempt income, as long as the interest rate is reduced for the beginning farmer.
- c. Beginning farmers will need to become more creative with their operations:
  - i. They should not just plan to operate a corn and soybean rotation program
  - ii. Smaller tracts could be operated to raise products for farmers markets.
  - iii. They could lease and use vacated livestock facilities to generate more income.
- d. Possibly, the state should explore supporting more packing plants or cooling facilities to process garden products that would facilitate more efficient operations and create some synergies that could spin off other benefit.
- e. With the current economic conditions, it seems Iowa will lose a higher than normal number of beginning farmers as they will be forced to pursue off-farm jobs.

## **2. Performance Goals of the Authority**

- A. As the previous Executive Director of the Authority, our top three performance goals are:
  - 1) Administer the existing programs efficiently and effectively with the current reduced staff.
  - 2) Continue to explore and adopt alternatives to reduce the Authority's expenses.
  - 3) Conduct and maintain an aggressive marketing program that will increase Iowa's farmer's awareness of the Authority's programs by collaborating with the:
    - i. Iowa Bankers Association, Community Bankers of Iowa, FSA, and Iowa's ag lenders
    - ii. High schools, community colleges and 4-year colleges with agriculture programs
    - iii. Agricultural commodity organizations and support groups
    - iv. Farm managers and rural appraisers throughout Iowa
    - v. Agricultural attorneys and CPA's who service and advise Iowa farmers
    - vi. Iowa's beginning farmers, retiring farmers, and investor-landlords
- B. The Authority staff is in the process of revamping the databases that maintain the program's vital information and produce the desired reports. Several modifications are being made to make these databases operate more efficiently.

- C. The performance of the Authority is directly related to the:
- 1) Authority's ability to operate efficiently and financially responsibly that aligns with the respective revenue stream and necessary expenses
  - 2) Public's awareness of the Authority's programs
  - 3) Financial and managerial ability of beginning farmers to qualify and utilize the programs
  - 4) Overall economic conditions that either encourage or impede beginning farmers from making financial progress which strengthens their financial capabilities so they can apply to the Authority for a new project.

### **3. Auditor of State Annual Audit**

- A. The staff of the Auditor of the State of Iowa's conducted an audit of the Authority in accordance with Government Auditing Standards for the year ending June 30, 2012. A copy of this report can be obtained at <http://auditor.iowa.gov/reports/index.html>
- B. The audit identified two internal control deficiencies, both which have been resolved:
- 1) Segregation of duties in collecting, deposit preparation and recording cash, accounts receivable records and posting receipts. The audit staff acknowledge that with the current small staff, internal controls are being adhered to with cross-checks and operating procedures.
  - 2) The former Executive Director used the Authority's procurement card for two personal purchases for which he paid U.S. Bank directly. This problem has been rectified as the staff will no longer carry Authority cards.

### **4. 175.7 -- Government Oversight Regarding Operations of the Authority**

- A. Governor appointment and Senate confirmation
- 1) Governor Branstad appointed Steve Ferguson to return to serve as the Executive Director of the Authority; Steve had previously served as the Authority's Executive Director from 1997 through 2000
  - 2) The Senate has not established the date to consider the confirmation of Steve Ferguson to serve as the Executive Director of the Authority.
- B. Executive Director shall not exert influence to adopt a political view or favor a political candidate for office.
- 1) Steve Ferguson is registered as an Independent and has not participated in any political discussions with either political party.
  - 2) Steve Ferguson has not engaged in any discussions that would encourage or favor the consideration of any candidate for office.
- C. Executive Director shall advise, carry out all directives, hire and supervise staff
- 1) The Executive Director continues to supervise the staff in administering programs, while consulting with the Authority board of directors to identify and carry out its directives
  - 2) The Authority board of directors:
    - i. Decided at their November board meeting to cancel the Iowa Agricultural Youth Institute (IAYI) due to decreased interest in youth applications and sponsorships.
    - ii. Have taken action to modify several aspects to the Beginning Farmer Tax Credit Program, including the procedures to calculate the crop share and flex lease tax credits, the application fees, the manner to provide only one tax credit certificate if the agricultural asset owner is a corporation, trust, LLC, etc., to eliminate the need for Crop

Harvest Report to be provided, and moving the deadline for applications to September 1<sup>st</sup>, instead of December 1<sup>st</sup>.

- 3) The Authority's Accounting Technician recently accepted another position with the Iowa Department of Health.
  - i. Due to the Authority's tight cash flow, the duties of this position will be absorbed by the existing staff.
  - ii. The Authority has established an arrangement the Iowa Department of Agriculture and Land Stewardship (IDALS) to provide the accounting services at a much reduced rate that the FTE would cost; this will help reduce the Authority's expenses during the next six months.

D. Secretary of the Authority, custodian of all books, documents and papers.

- 1) The IADA board meets monthly and we continue to produce and maintain quality minutes of the meetings.
- 2) The databases of the various programs are being upgraded to assure the data is properly maintained and reports more efficiently produced.
- 3) The accounting records will be maintained by IDALS and they will assist the State Auditor's staff in completing the annual audit.